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DE RUEHKI #1737/01 3171615

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FM AMEMBASSY KINSHASA
TO RUEHC/SECSTATE WASHDC 5144
INFO RUEHXR/RWANDA COLLECTIVE
RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
RUEAIIA/CIA WASHDC
RHMFISS/HQ USEUCOM VAIHINGEN GE
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C O N F I D E N T I A L SECTION 01 OF 02 KINSHASA 001737

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E.O. 12958: DECL: 11/13/2016
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SUBJECT: DISPUTE EMERGING OVER GOLD MINING DEAL

REF: KINSHASA 1234

Classified By: ECONOFF W.BRAFMAN FOR REASONS 1.4 B/D.

¶11. (C) Summary. The CEO of OKIMO, the DRC's gold-mining parastatal, is publicly disputing the validity of a concession contract with the Australian-based company Moto Goldmines Limited (Moto) and a Congolese company, Orgaman, claiming that members of OKIMO's management illegally signed it. If the agreement is approved, OKIMO's CEO says the parastatal will no longer have sole control over any known gold reserves in OKIMO's concessions. Its CEO's goals include not only nullifying this new agreement and retaining sole rights to some gold mining areas, but also modernizing the company through staff reduction and a public tender of shares. End summary.

¶12. (U) October 17, Australian-based Moto Goldmines Limited (Moto) and Congolese company Orgaman entered into a joint venture agreement with OKIMO for the Moto Gold Project concession in Haut-Uele District, Orientale province, following months of negotiations (reftel). The accord would replace seven different lease agreements between OKIMO and Orgaman. OKIMO's CEO, Victor Kasongo, told EconOff that the parties made the first agreement when Orgaman loaned OKIMO USD 1.5 million at a 10 percent annual interest rate. The subsequent contracts resulted from OKIMO's debt rescheduling and partial repayments; some of the agreements granted Orgaman concession rights. (Note: Moto acquired an interest in the project in April 2003. End note.)

¶13. (U) According to the consolidating agreement, OKIMO will have a 30 percent interest in the joint venture, Moto will have 60 percent, and Orgaman will hold 10 percent. The terms also include Moto's purchasing OKIMO's debt to Orgaman and Moto's paying to OKIMO USD 5 million plus monthly rent of USD 350,000. The geographic size of the concession is unclear.

¶14. (C) OKIMO's CEO says the agreement is illegal, and its employees' union issued a statement objecting to it. OKIMO's CEO, Kasongo, told EconOff he did not sign the contract (the Board Chairman signed it while Kasongo was out of the country) and that OKIMO's contracts are not legal without his signature. His primary substantive objection to the agreement is that it grants Moto and Orgaman rights to the entire Moto concession area, instead of reserving certain portions solely for OKIMO. Kasongo says that the portions over which he believes OKIMO should retain control have confirmed reserves valued at over USD 1 billion. Kasongo and a Bunia-based OKIMO project director told EconOff that if the agreement with Moto and Orgaman is approved, OKIMO will no longer maintain sole control over any of the known gold reserves in its concession area. The Bunia project director also said that employees fear that OKIMO would then become an empty shell.

¶ 15. (C) Kasongo said although the new Ministers of Mines and Portfolio (who are from different transitional government factions than President Kabila's) have signed the agreement, President Kabila will not do so. Kasongo claims that Kabila does not think such a deal should be considered until after the installation of the new government.

OTHER PLANS

¶ 16. (C) Kasongo's other plans for OKIMO include reducing staff size, launching a public share offering, and in general making OKIMO a more valuable asset for the GDRC. He says that OKIMO has an aging, ineffective workforce, many of whom would retire if OKIMO could pay their severance packages. He said that about 100 persons could easily do the work of the current staff of nearly 2,000. He acknowledged that many OKIMO employees likely take bribes and engage in other corruption to supplement their small salaries.

¶ 17. (C) Publicly offering twenty percent of OKIMO's shares is another of Kasongo's goals, and he told EconOff he estimates OKIMO could now be worth as much as USD 300 million. While he did not articulate his vision of OKIMO's specific future role, he says it is an important part of the DRC's patrimony and should remain alive as a "mining company." He also complained (perhaps disingenuously) that OKIMO is not currently very important to the GDRC because it generates little official income, as opposed to other natural resource sub-sectors such as diamonds and petroleum, which are responsible for over half of the GDRC's export revenue.

COMMENT

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¶ 18. (C) The OKIMO dispute demonstrates both the lack of transparency in the DRC's extractive industries' transactions, and the extent to which various factions in the transitional government often work against each other. Industrialization and the installation of a more coherent and accountable government will probably slow the illegal export of natural resources and increase GDRC revenues, but the international community should be careful not to embrace sizable deals before raising questions about key players, especially given the large revenues at stake. Gold mining will remain a sub-sector that merits particularly close monitoring because of its pivotal role in cross-border economic and political stability. End comment.

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